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**CITY OF GLOUCESTER**  
OFFICE OF THE MAYOR

**To:** Council President Hardy and Members of the Gloucester City Council  
**From:** Mayor Carolyn A. Kirk  
**Date:** May 4, 2010  
**Re:** FY11 Budget Transmittal

Presented for City Council review and approval is the annual city budget proposed for Fiscal Year 2011 (FY11) which begins on July 1, 2010 and runs through June 30, 2011.

There is much good news in this budget. We are seeing a rebound in city service levels due to three factors:

- Freeze on wage increases – city contracts have settled over the past year with employees agreeing to three years of zero wage increases retrospectively. NOTE: The School Committee can address the status of school contracts.
- Prudent use of the new revenue available. NOTE: Two-thirds of the new revenue was allocated to the School Dept. in this budget. One-third was allocated to the city.
- Continuous re-evaluation of existing spending and migration toward high priority areas.

However, in my judgment we are experiencing a one-year reprieve. Next year the Charter School tuition bill hits and the ARRA stimulus funding shoring up the school budget disappears. Continued spending restraint and reprioritization of existing spending is the order of the day.

This budget transmittal summary is comprised of four sections:

- 1) revenue highlights in the FY11 balanced budget proposal;
- 2) the Administration's recommendation regarding the FY11 School budget,
- 3) expense highlights in the FY11 balanced budget proposal and,
- 4) overview of the Administration's recommended approach to the FY11 enterprise accounts including a debt shift for CSO debt, and proposed water and sewer rates.

## **SECTION ONE: Revenue Highlights of FY11 Balanced Budget Proposal**

### **FY11 Revenues**

The total FY11 general fund revenue is made up of:

General Fund Revenue:	\$84,942,510
One-time Revenue Sources:	\$ 0*
Reserve for Abatement and Exemptions:	\$ (400,000)
Charter School Tuition:	\$(1,026,180)**
Debt Shift - CSO:	\$(1,750,000)***

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Total Net Available Funds for FY11: \$ 81,766,330

**\*NOTE:** Once again we are pleased to report that the city portion of the budget has no reliance on one-time funding sources. Spending within the city's means is an important fiscal policy of my Administration.

**\*\*NOTE:** The estimated Charter School tuition for FY11 comes in as a revenue on the Cherry Sheet. An equal amount is then deducted on the assessment (or expense) side of the Cherry Sheet resulting in a zero sum for this fiscal year. Next year, as the state contribution begins to disappear, Charter School expenses will be charged with less reimbursement resulting in a revenue gap that will need to be made up for by local revenues.

**\*\*\*NOTE:** This budget also includes a debt exclusion for the ongoing federally mandated CSO project. We are showing the revenue raised from the debt exclusion, however, an equal amount is taken as debt expenses resulting in a zero sum for this fiscal year.

The bottom line net available funding for FY11 is \$81,766,330. This represents a 1% or \$974,762 increase over FY10. Two-thirds of this available new revenue or \$664,000 has been allocated to the School Dept. My Administration strives to split new available revenue with the schools 50/50, and guidance was given too early this year when an optimistic look at revenues was taken, but the Administration makes good on its guidance in this budget.

Highlights pertaining to the revenue budget include:

1. **State Revenues:** The state revenue picture remains very troubling. As per Beacon Hill forecasts, we have budgeted on a 4% local aid reduction, however Gloucester's Cherry Sheet shows a 5.8% cut in Chapter 70 funding (education aid). It is our understanding that this additional reduction will be made up directly with the School Dept. through additional ARRA funding. The bottom line appropriation to the School Dept. has been adjusted accordingly.

It is important to note that the new meals and room taxes recently passed by the City Council has merely plugged the hole created by the cut in state aid. We are budgeting an increase of \$425,000 on these new taxes, but local aid has been cut by over \$520,000 heading into FY11.

2. **Local Revenues:** The local revenue figures for FY11 have been conservatively estimated due to the continued economic condition of local, state and national economy. In addition, the administration remains determined to improve the overall financial health of the City by being conservative on revenues to help restore the general fund's unreserved fund balance. The following highlights reflect the administration's efforts in this regard:
  - a. Motor vehicle excise tax revenue is estimated at \$2,700,000 which is flat-lined from FY10. Each of the past few years the revenue estimate has decreased due to the economic conditions of the community. The administration believes that it will not continue to decline further.
  - b. Estimated FY11 revenue for the sale of trash bags has been reduced by \$400,000 from FY10. FY10 was the first full year of the program of switching from sticker sales to the purple trash bags and our revenue estimate for FY11 is based upon a full year's actual experience. It is important to note that our solid waste tonnage has also been estimated to be reduced in FY11.
  - c. Parking fees for the beaches has been conservatively estimated at \$1,200,000 for FY11, down \$127,000 from FY10. We are hopeful to exceed that revenue projection to improve fund balance.
  - d. New growth on the tax base is estimated at \$550,518 which is up approximately \$50,000 from FY10.
  - e. Ambulance revenue has been increased again in FY11. An increase over FY10 in the amount of \$56,250 is reflected in FY11's budget.

## **SECTION TWO: School Budget Recommendation**

The FY11 school budget is built on \$717,000 of ARRA funding (federal stimulus money). This funding in all likelihood goes away next year, and will present another revenue gap in addition to the Charter School revenue gap.

The Administration presented the School Committee with early budget guidance in the budget process, and in retrospect, we then had an overly optimistic view of new revenue available for FY11. Once all new and existing revenues were calculated in late April, the new revenue available amounts to less than \$1million, however, the Administration is fulfilling its commitment to increase the appropriation by \$664,000 which amounts to two-thirds. Policy preference is to split new revenue 50 / 50 with the schools.

The increase of \$664,000 sets a bottom-line appropriation for the School Dept. for FY11 in the amount of \$36,323,887 (adjusted for the increased Cherry Sheet reduction in Chapter 70 that will be directly allocated to the schools in the amount of \$111,994).

The Administration encourages the School Committee to control wage increases, make the most use of new revenue available, and continuously reprioritize existing spending in order to make progress in funding its priorities.

## **SECTION THREE: Expense Highlights of FY11 Balanced Budget Proposal**

The expense budget for FY11 is \$81,766,330. This represents an increase of 1% from FY10 expenditures. The Administration continues to adjust spending to reflect its priorities. We are pleased to be able to accomplish some very important goals with the portion of new revenue allocated to the city along with the continued readjustment of existing spending and the three year hold on wage increases.

Highlights pertaining to the expense budget include:

1. **Police Department:** After hitting an all-time staffing low in April 2009, we are pleased to report a rebound in staffing for patrolmen. This budget includes the hiring of two new police officers. In addition, many of the equipment needs identified in the recently conducted Police Dept. Audit are funded such as new portable radios, a generator, and a mobile data terminal for use in patrol vehicles.
2. **Fire Department:** We are also pleased to report a rebound in staffing for paramedics. This budget includes the hiring of two paramedics. In addition, the Administration supports and funds the creation of an Assistant Chief's position as recommended in the Lorraine Fire After Action Report and the Fire Department Audit commissioned last year by the City Council.

Included also is a capital expenditure for a new forestry vehicle and a fire engine to replace 20+ year old equipment. Loan authorizations will be presented for both. Similar to the budgeted vehicle replacement plan contained in the Police budget, the Fire Dept. needs to fund a budgeted plan for vehicle replacement.

3. **Department of Public Works:** This budget is responsive to the increased demands on the Department of Public Works in order to better satisfy citizen expectations and to manage the enormous load of capital projects that are bearing down on the city this year and in the years to come. With the addition of the City Engineer (PE), for the first time in many years, there will be a full complement of management support for the Department freeing up the Director to focus on capital planning, and productivity of the Department.

In addition, the appropriation in the ever-underfunded snow and ice accounts has been increased by \$200,000. This is specifically in response to not only underfunding patterns but to our downtown community in which economic activity can slow to a crawl with insufficient snow clearing and removal efforts.

4. **Library/Rose Baker Senior Center/Veteran's Services:** We have also turned the corner on the budget for the Sawyer Free Library, the Rose Baker Senior Center, and the Veteran's Services office.
  - The Library has operated under a waiver for the last few years, and working with the Director, we have formulated a plan to make up the lost ground over the next few fiscal years and get out from under waiver status altogether and back to certification level.
  - Staffing at the Rose Baker Senior Center is being provided with relief with the increase of one part-time position to full time.
  - This budget funds a full-time Veteran's Services Agent. The position had been vacant for over a year, and last year was staffed with a part-time contracted Agent.
5. **Union Contracts:** At this time last year, almost no contracts were settled. Today we have all contracts settled with the exception of the Superior Police Officers. All city employees took three years of zeros, and we are grateful for their support of their city. Controlling wage increases through the economic downturn has provided the city with the flexibility it needs to now rebound service levels as evidenced in this budget. Go forward funding for settled contracts is reflected in this budget.
6. **Debt:** The City of Gloucester has \$92 million in outstanding long-term debt, principal only, with an additional \$26 million in short-term debt outstanding so far as of 6/30/10. Most, if not all, of the \$26 million will be converted to long term debt in FY11. Included in the FY11 budget, in the general, water and sewer funds, are appropriations for debt service payments totaling approximately \$14.4 million (principal and interest). The City also has over \$40 million in authorized unissued debt presently. The City will benefit from the receipt of ARRA funds relating to our SRF loans in principal forgiveness. Also, the City will be borrowing \$700,000 for the acquisition of the I4C2 property by June 30, 2010.
7. **Deficit Reserve:** The City is appropriating city funds in the amount of \$100,000 to be held in reserve in order to close out any remaining deficits mandated by DOR during tax recap time in the fall of 2010. Last year, the city had to unexpectedly cover \$43,000, a portion of the deficit in the school food service fund. The Finance Team, including the City Council Budget and Finance Chairman and the School CFO have met weekly since January to review and solve the deficit funds in the city and schools. The city anticipates that it will close out all of its deficits by June 30, 2010, however, progress is slow and of concern with regard to the school deficits. It is the administration's expectation that the School Committee will address all school funds in a deficit position before June 30, 2010.
8. **Community Preservation Act:** The City voted to implement a 1% surcharge on its real property tax levy and to receive state matching funds for the acquisition, creation, preservation, rehabilitation and restoration of open space, historic resources and affordable housing effective in FY10. The administration has estimated a FY11 budget in the amount of \$560,000 consisting of \$132,500 from the Commonwealth as the state's share and the surcharge that equates to \$427,500 in local tax revenue.

## **SECTION FOUR: FY11 Enterprise Accounts**

### **Water Enterprise Fund**

**Proposed Water Rate: \$8.75 which represents an increase of 16% from FY10.**

- Consumption estimates from last year appear to be accurate so FY11 consumption estimates mirror FY10.
- Collections continue to be strong on prior year receivables and current year charges. When the rates were set last year, a goal was set to collect at least \$400,000 of the FY09 receivable balance. To date, \$333,000 has been collected but there is another quarter's worth of collections yet to be performed. We are confident that we will achieve this collections goal. In addition, we have collected \$329,000 of water lien revenue to date. That exceeds the collections in FY09 for the same period to date by about 50%.
- Debt service appropriations increased by \$409,000 in FY11 which adds 56 cents to the rate.
- Indirect costs for services provided by the general fund on behalf of the water fund have been allocated in FY11 for the first time. An indirect cost allocation was put forth as a result of a recommendation from the City's external auditing firm.

### **Sewer Enterprise Fund**

**Proposed Sewer Rate: \$10.61 which represents a decrease of 17% from FY10.**

- Consumption estimates from last year appear to be accurate so FY11 consumption estimates mirror FY10.
- Collections continue to be strong on prior year receivables and current year charges. When the rates were set last year, a goal was set to collect at least \$400,000 of the FY09 receivable balance. To date, \$413,000 has been collected and there is still another quarter's worth of collections yet to be performed. We have exceeded our collections goal with more to still be collected this fiscal year. In addition, we have collected \$411,000 of sewer lien revenue to date. That exceeds the collections in FY09 for the same period to date by about 50%.
- Indirect costs for services provided by the general fund on behalf of the water fund have been allocated in FY11 for the first time. An indirect cost allocation was put forth as a result of a recommendation from the City's external auditing firm.
- Debt service appropriations decreased by a net amount of \$1.4 million in FY11 due to the removal of CSO debt (\$1.75 million) from the sewer fund.

### **Waterways Enterprise Fund**

This self supporting enterprise fund projects a modest increase in overall spending for FY11. The increase relates mainly to proposed improvements to transient moorings.

The Administration looks forward to cooperative discussions with the City Council on this FY11 budget.  
Thank you.